



Senate

General Assembly

File No. 434

February Session, 2000

Substitute Senate Bill No. 579

Senate, April 5, 2000

The Committee on Judiciary reported through SEN. WILLIAMS of the 29th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

An Act Establishing A Pilot Program For Low-Cost Automobile Insurance With Reduced Benefits.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (a) Beginning January 1, 2001, and ending January 1, 2003,
2 there shall be a low-cost automobile insurance pilot program for the
3 cities of Hartford, New Haven and Bridgeport in accordance with
4 sections 1 to 10, inclusive, of this act. As used in sections 1 to 10,
5 inclusive, of this act, "pilot program" means the low-cost automobile
6 insurance pilot program established pursuant to this section; "plan"
7 means the plan established by the Insurance Commissioner pursuant
8 to subsection (b) of this section; "policy" and "low-cost policy" mean a
9 low-cost automobile insurance policy made available under the pilot
10 program, and "assigned risk plan" means the plan established under
11 section 38a-329 of the general statutes.

12 (b) After consultation with insurance carriers authorized to issue
13 automobile liability insurance policies in this state, and after a public

14 hearing, the Insurance Commissioner shall establish and approve a
15 reasonable plan or plans to provide insurance coverage for applicants
16 who reside in the cities of Hartford, New Haven and Bridgeport who
17 qualify for the pilot program pursuant to sections 1 to 10, inclusive, of
18 this act. Carriers shall participate to cover qualified applicants. The
19 commissioner shall administer the plan through the assigned risk plan.

20 (c) For purposes of the pilot program, a low-cost automobile
21 insurance policy shall contain the elements set forth in subdivisions (1)
22 to (4), inclusive, of this subsection:

23 (1) The policy shall provide coverage in the amount of ten thousand
24 dollars for bodily injury to, or death of, each individual as a result of
25 any one accident and, subject to that limit as to one individual, the
26 amount of twenty thousand dollars for bodily injury to, or death of all
27 individuals as a result of any one accident, and the amount of five
28 thousand dollars for damage to property of others as a result of any
29 one accident.

30 (2) The policy shall have an initial term of one year, renewable on an
31 annual basis thereafter.

32 (3) The policy shall cover the insured named in the policy, and to
33 the same extent that insurance is provided to the named insured, any
34 other individual using the automobile, provided (A) the use is with the
35 named insured's permission, express or implied, and (B) the individual
36 is not a resident in the same household as the insured who does not
37 meet the requirements of subdivisions (2) to (6), inclusive, of section 3
38 of this act.

39 (4) The policy shall provide coverage for an automobile with a
40 value, at the time an individual applies for coverage under the pilot
41 program, of less than thirteen thousand dollars. The value shall be
42 established by reference to the value given to the automobile by the
43 Secretary of the Office of Policy and Management for property taxation

44 purposes pursuant to section 12-71d of the general statutes as set forth
45 in the information provided to producers under section 10 of this act.

46 (d) Notwithstanding the coverage amounts required by section 14-
47 112 of the general statutes, a low-cost automobile policy issued under
48 the pilot program shall be deemed to satisfy the obligations of the
49 Financial Responsibility Law, sections 14-112 to 14-133, inclusive, of
50 the general statutes and section 38a-371 of the general statutes.

51 Sec. 2. (a) The annual rate offered under the pilot program for the
52 low-cost automobile insurance policy shall be set by the assigned risk
53 plan.

54 (b) Rates for policies issued under the pilot program shall be
55 reviewed and revised as set forth in subdivisions (1) to (4), inclusive, of
56 this subsection:

57 (1) The assigned risk plan shall establish a base rate but may adjust
58 the rate for individual insureds based on risk characteristics including,
59 but not limited to, age, miles driven, type of vehicle, gender and type
60 of use. In establishing the base rate, the plan shall take into account the
61 loss experience in states where policies are sold with coverage in the
62 amounts set forth in subdivision (1) of subsection (c) of section 1 of this
63 act. Rates for the pilot program shall be set independently of rates set
64 for the assigned risk plan.

65 (2) Rates shall be set to cover (A) losses incurred under policies
66 issued under the pilot program, and (B) expenses, including, but not
67 limited to, all reasonable and necessary expenses such as the costs of
68 administration, underwriting, taxes, commissions and claims
69 adjusting, that are incurred due to participation in the pilot program.
70 For purposes of this section, "losses incurred" means claims paid,
71 claims incurred and reported and claims incurred but not yet reported.
72 In assessing loss reserves, the Insurance Commissioner shall only
73 allow loss reserves that are estimated from actual losses in the pilot

74 program or comparable data by a licensed statistical agent, as adjusted
75 to reflect coverage provided under the pilot program.

76 (3) Rates shall be set to result in no projected subsidy of the pilot
77 program by insureds who are not participants in the pilot program.

78 (4) Not later than January 1, 2002, the assigned risk plan shall
79 examine the prior year's loss and expense data, together with a
80 proposed rate for the low-cost automobile policy for the pilot program
81 and shall submit recommendations to the commissioner in such form
82 as the commissioner requires. The commissioner shall act on the
83 recommendations not later than ninety days after receipt.

84 (c) The plan shall make available to an insured under the pilot
85 program a premium instalment option under which an insured is
86 required to pay one hundred dollars upon issuance of the low-cost
87 policy, followed thereafter by six additional payments. No other
88 premium financing arrangement may be permitted.

89 Sec. 3. A low-cost automobile insurance policy under the pilot
90 program may only be purchased by individuals who satisfy the
91 following eligibility requirements:

92 (1) The individual shall reside in Hartford, New Haven or
93 Bridgeport in a household with a gross annual household income that
94 does not exceed two hundred per cent of the federal poverty level.

95 (2) The individual shall be no less than nineteen years of age and
96 shall have been continuously licensed to drive an automobile for the
97 previous three years.

98 (3) The individual shall not have more than one of the events set
99 forth in subparagraph (A) or (B) of this subdivision as documented on
100 the individual's motor vehicle driving history record or comprehensive
101 loss underwriting report:

102 (A) An accident resulting in only property damage in which the
103 individual was principally at fault.

104 (B) A point for a motor vehicle violation.

105 (4) The individual shall not have, as documented on the individual's
106 motor vehicle driving history record or comprehensive loss
107 underwriting report, within the previous three years an at-fault
108 accident involving bodily injury or death.

109 (5) The individual shall not have a felony or misdemeanor
110 conviction for a motor vehicle violation as documented on the
111 individual's motor vehicle driving history record or comprehensive
112 loss underwriting report.

113 (6) The individual shall not be a college student claimed as a
114 dependent of another individual for federal or state income tax
115 purposes.

116 Sec. 4. (a) An individual may apply for coverage under the plan
117 through any licensed producer certified by the plan. In order to
118 demonstrate financial eligibility to purchase a low-cost automobile
119 insurance policy under the pilot program, the applicant shall present at
120 the time of application a copy of the applicant's federal or state income
121 tax return for the previous calendar year or other reliable evidence
122 from a governmental agency or governmental means-tested program
123 of the applicant's gross annual household income, as required by the
124 commissioner.

125 (b) The applicant shall certify that the representations made in the
126 documents submitted as proof of financial eligibility and in the
127 application for the policy are true, correct, and contain no material
128 misrepresentations or omissions of fact to the best knowledge and
129 belief of the applicant.

130 (c) The certified producer shall forward the application, supporting

131 documents, and the applicant's certification to the plan or other
132 individual or entity designated by the Insurance Commissioner. The
133 information on the application, supporting documents and
134 certification shall be confidential. The information, documents and
135 certification may not be disclosed by the producer or the plan and shall
136 not be subject to disclosure under the Freedom of Information Act, as
137 defined in section 1-200 of the general statutes.

138 (d) No producer may issue a binder for coverage under the plan.

139 (e) A certified producer, the producer's agency and employees and
140 any person, as defined in section 38a-1 of the general statutes,
141 contracting with a producer shall be held harmless from (1) any claim,
142 judgment or legal action resulting from an individual's application for
143 coverage or purchase of coverage under the plan, or (2) any related or
144 unrelated claim made against the insured under the plan including,
145 but not limited to, uninsured and underinsured claims.

146 (f) Each insurance company that issues an automobile policy in this
147 state and each certified producer shall inform an individual about the
148 coverage available under the pilot program if the individual (1)
149 inquires about a new automobile policy, and is not renewing a policy,
150 and the individual indicates that the individual resides in Hartford,
151 New Haven or Bridgeport, or (2) inquires about coverage under the
152 pilot program.

153 Sec. 5. (a) A certified producer shall provide to an applicant for a
154 low-cost automobile insurance policy under sections 1 to 10, inclusive,
155 of this act, a notice relating to coverage under the policy. The notice
156 shall be provided in a separate document at the time of application,
157 and include the following statement in fourteen-point bold-face type:

158 "NOTICE

159 INSURANCE COVERAGE PROVIDED IN THE POLICY YOU ARE

160 BUYING CONTAINS REDUCED LIABILITY COVERAGE FOR
161 PERSONAL INJURIES OR PROPERTY DAMAGE RESULTING FROM
162 THE OPERATION OF THE INSURED VEHICLE.

163 IF LOSSES FROM AN AUTOMOBILE ACCIDENT EXCEED THE
164 COVERAGE PROVIDED BY THIS POLICY, YOU CAN BE HELD
165 PERSONALLY LIABLE AND RESPONSIBLE FOR THOSE LOSSES.
166 THIS POLICY PROVIDES LIABILITY COVERAGE FOR INJURIES OR
167 DEATH CAUSED TO OTHER PERSONS IN THE TOTAL AMOUNT
168 OF TEN THOUSAND DOLLARS (\$10,000) PER PERSON IN ANY
169 ONE ACCIDENT, AND UP TO A TOTAL AMOUNT OF TWENTY
170 THOUSAND DOLLARS (\$20,000) FOR ALL PERSONS IN ANY ONE
171 ACCIDENT. THE POLICY ALSO PROVIDES UP TO A TOTAL
172 AMOUNT OF FIVE THOUSAND DOLLARS (\$5,000) IN LIABILITY
173 COVERAGE FOR PROPERTY DAMAGE IN ANY ONE ACCIDENT.

174 IF YOU WANT MORE INSURANCE COVERAGE, YOU MUST
175 REQUEST A DIFFERENT POLICY. THIS POLICY ALSO DOES NOT
176 COVER DAMAGE TO YOUR OWN VEHICLE, LOSSES RESULTING
177 FROM YOUR BODILY INJURY OR DEATH, OR COVERAGE FOR
178 LOSSES CAUSED BY AN UNINSURED OR UNDERINSURED
179 DRIVER. HOWEVER, UNINSURED, UNDERINSURED AND BASIC
180 REPARATIONS COVERAGE MAY BE AVAILABLE AT EXTRA COST
181 THROUGH OTHER INSURERS. THIS POLICY DOES NOT COVER
182 ANY OTHER DRIVER RESIDING IN YOUR HOUSEHOLD WHO:

183 (1) IS UNDER NINETEEN YEARS OF AGE;

184 (2) HAS LESS THAN THREE YEARS OF CONTINUOUSLY
185 LICENSED DRIVING EXPERIENCE;

186 (3) HAS MORE THAN ONE OF EITHER, OR BOTH, OF THE
187 FOLLOWING:

188 (A) A PROPERTY DAMAGE ONLY ACCIDENT IN WHICH THE

189 DRIVER WAS PRINCIPALLY AT FAULT; OR

190 (B) A POINT FOR A MOVING VIOLATION.

191 (4) HAD IN THE PREVIOUS THREE YEARS AN AT-FAULT
192 ACCIDENT INVOLVING BODILY INJURY OR DEATH; OR

193 (5) HAS A FELONY OR MISDEMEANOR CONVICTION FOR A
194 VIOLATION OF THE MOTOR VEHICLE CODE ON THE PERSON'S
195 RECORD."

196 (b) When the certified producer establishes delivery of the
197 disclosure form prescribed in subsection (a) of this section by obtaining
198 the signature of the applicant or insured, there shall be a conclusive
199 presumption that the certified producer has complied with the
200 disclosure requirements of this section.

201 Sec. 6. For the sale of a low-cost automobile insurance policy issued
202 pursuant to the pilot program, certified producers shall be entitled to
203 the same commission rate as is paid by the assigned risk plan for
204 automobile liability insurance policies. No other fee may be charged or
205 collected by a producer regarding a low-cost policy. The sale of a low-
206 cost policy under sections 1 to 10, inclusive, of this act shall not be
207 conditioned on the purchase of any other product or service.

208 Sec. 7. (a) A low-cost automobile insurance policy issued pursuant
209 to the pilot program may be canceled by the plan or insurer only for
210 the reasons set forth in this subsection:

211 (1) Nonpayment of premium;

212 (2) Fraud or material misrepresentation affecting the policy or the
213 insured;

214 (3) The purchase or maintenance of additional automobile liability
215 insurance coverage in violation of subsection (a) of section 8 of this act;

216 or

217 (4) The purchase or maintenance of automobile liability insurance
218 coverage other than a low-cost policy for any additional vehicles in the
219 insured's household, in violation of subsection (b) of section 8 of this
220 act.

221 (b) A policy may be nonrenewed by the plan or insurer only for the
222 reasons set forth in this subsection:

223 (1) A substantial increase in the hazard insured against; or

224 (2) The insured no longer meets the applicable eligibility
225 requirements as set forth in section 3 of this act, provided the eligibility
226 of an insured shall be recertified by the assigned risk plan after the first
227 year of eligibility, and annually thereafter by the insurer that issued
228 the policy.

229 Sec. 8. (a) An insured under the pilot program shall not purchase or
230 maintain automobile liability insurance coverage that is in addition to
231 the liability coverage provided by the low-cost policy, except the
232 insured may purchase uninsured motorist coverage or basic
233 reparations coverage outside of the plan.

234 (b) An insured under the pilot program shall not purchase or
235 maintain any automobile liability insurance coverage other than a low-
236 cost policy for any additional vehicles in the insured's household.

237 (c) No more than two low-cost policies may be issued to one
238 household.

239 Sec. 9. (a) The pilot program may begin operations on January 1,
240 2001, but shall be fully operational not later than July 1, 2001.

241 (b) The Insurance Commissioner may adopt regulations, in
242 accordance with the provisions of chapter 54 of the general statutes, to

243 implement the provisions of sections 1 to 9, inclusive, of this act.

244 (c) Not later than January 1, 2002, and annually thereafter until
245 January 1, 2004, the Insurance Commissioner shall report to the joint
246 standing committee of the General Assembly having cognizance of
247 matters relating to insurance on the operations and status of the pilot
248 program.

249 Sec. 10. Beginning January 1, 2001, and ending January 1, 2003, the
250 Secretary of the Office of Policy and Management shall make available
251 to certified producers the schedule of motor vehicle values established
252 under section 12-71d of the general statutes. Producers shall use the
253 schedule to determine an applicant's eligibility under the pilot
254 program. The secretary shall update the information whenever there is
255 a change in the information.

Statement of Legislative Commissioners:

Dates were changed in sections 1(a), 2(b)(4), 9(c) and 10 to conform to a two-year pilot period.

INS Committee Vote: Yea 11 Nay 6 JFS C/R JUD

JUD Committee Vote: Yea 36 Nay 4 JFS

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact: Cost

Affected Agencies: Department of Insurance (Insurance Fund)

Municipal Impact: None

Explanation**State Impact:**

There will be a cost of approximately \$45,000 experienced by the Department of Insurance as a result of the passage of this bill. The department is required to develop and administer reasonable plans for low-cost automobile insurance coverage for the cities of Hartford, New Haven and Bridgeport. This shall be administered through the assigned risk plan. The department would require one staff position at a salary of \$45,000 in the Property and Casualty Division to administer this program. The division will be required to establish new policy forms, new rates and new procedures for the new low-cost plans.

The bill also requires the Office of Policy and Management (OPM) to make available to certified insurance producers the schedule of motor vehicle values and to update this information when necessary. This can be handled within the anticipated budgetary resources of OPM.

OLR Bill Analysis

sSB 579

***AN ACT ESTABLISHING A PILOT PROGRAM FOR LOW-COST
AUTOMOBILE INSURANCE WITH REDUCED BENEFITS.*****SUMMARY:**

This bill establishes a two-year (from January 1, 2001 to January 1, 2003) low-cost automobile insurance pilot program for the cities of Hartford, New Haven, and Bridgeport. The insurance commissioner must establish and approve the program after consulting with automobile liability insurers and holding a public hearing. He must administer the program through the Connecticut Assigned Risk Plan (CARP).

The bill establishes the following components of the pilot program:

1. eligibility criteria for program applicants;
2. how rates are set and premiums paid;
3. monetary liability limits for low-cost policies, the term policies are in effect and the grounds for policy cancellation or nonrenewal;
4. people and cars insured under the program;
5. program restrictions; and
6. the role of certified insurance producers.

The bill specifies that low-cost policies issued under the pilot program satisfy the obligations of car owners under the state's Financial Responsibility Law.

The bill requires the program to be fully operational by July 1, 2001. It gives the commissioner the authority to adopt implementing regulations and, by January 1, 2002 and annually thereafter until January 1, 2004, requires him to submit a report to the Insurance and Real Estate Committee on the program's operations and status.

Finally, beginning January 1, 2001 and ending January 1, 2003, the bill requires (1) the Office of Policy and Management (OPM) secretary to make available to certified insurance producers the schedule of motor vehicle values established under the general statutes and (2) producers to use these values to determine applicant eligibility. The secretary must update this information whenever there is a change.

EFFECTIVE DATE: Upon passage

LOW-COST AUTOMOBILE INSURANCE PROGRAM

Applicant eligibility

The bill specifies that only applicants who meet the following criteria may purchase a low-cost automobile insurance policy under the pilot program:

1. they must reside in Hartford, New Haven or Bridgeport and have a gross annual household income no greater than 200% of the federal poverty level (\$34,100 for a family of four);
2. they must be at least 19 years old and licensed to drive for the previous three years;
3. they may not have more than one, but not both of the following incidents (a) an accident resulting only in property damage in which they were principally at fault or (b) a point for a motor vehicle violation;
4. they may not have any at fault accidents involving personal injury or death within the previous three years or any felony or misdemeanor convictions for a motor vehicle violation; and
5. they may not be college students who can be claimed as a dependent by someone for federal or state income tax return purposes.

Ratemaking Procedures and Premium Payment

The bill requires CARP to set, review, and revise low-cost automobile

insurance policy rates. CARP must establish a base rate that may be adjusted for individual risk factors such as age, miles driven, type of vehicle, gender, and type of vehicle use. Base rates must take into account loss experience in states with similar policy limits. Rates for the low-cost insurance program must be set independent of CARP rates. Rates must cover (1) losses incurred under low-cost policies and (2) expenses incurred due to participation in the pilot program, including reasonable and necessary expenses for administration, underwriting, taxes, commissions, and adjustment. Losses incurred includes claims: paid, incurred and reported, and incurred but not yet reported. Rates must also be set so that non-participants do not subsidize the pilot program.

The bill requires the commissioner to only allow loss reserves that are estimated from actual program losses or from comparable data provided by a licensed statistical agent, adjusted to reflect coverage under the pilot program.

The bill requires CARP by January 1, 2002, to examine the pilot program's prior year's loss and expense data and proposed rates and submit recommendations to the commissioner in a form the commissioner requires. The commissioner must act on the recommendations within 90 days after receipt.

Finally, the bill requires the pilot program to make available an instalment payment option under which the insured pays \$100 when the policy is first issued and six additional instalments thereafter. No other premium financing is permitted.

Policy Limits, Term, and Grounds for Cancellation or Nonrenewal

The bill requires low-cost insurance policies to have an initial term of one year and be renewable on an annual basis thereafter. The policy must provide liability coverage in the following amounts: (1) \$10 for bodily injury to, or death of, one person as a result of any one accident and, subject to the one person limit; (2) \$20,000 for bodily injury to, or death of all persons as a result of any one accident; and (3) \$5,000 for damage to the property of others as a result of any one accident.

The bill specifies that low-cost policies may only be cancelled for the

following reasons:

1. nonpayment of premium,
2. fraud or material misrepresentation affecting the policy or insured, or
3. the purchase or maintenance of more than two low-cost automobile insurance policies or the purchase of a standard automobile liability policy for a second vehicle in the insured's household.

The bill allows insurers to refuse to renew low-cost policies for the following reasons:

1. a substantial increase in the hazard insured against or
2. the insured no longer meets the program's eligibility requirements.

The bill requires CARP to recertify an insured's eligibility after the first year and the insurer that issued the policy to recertify his eligibility annually thereafter.

People and Cars Insured Under The Program

The bill requires low-cost policies to cover the person named in the policy, and to the same extent, any other individual using the vehicle with that person's expressed or implied permission if (1) he is not a resident of the insured's household and (2) he does not otherwise qualify for a low-cost automobile insurance policy.

The bill also requires low-cost policies to cover vehicles with a value less than \$13,000. Vehicle value is determined at the time an applicant applies for coverage and must be established by reference to the value given the vehicle by the OPM secretary for property tax purposes.

Pilot Program Restrictions

The bill prohibits a low-cost policyholders from purchasing or maintaining a standard automobile liability policy in addition to a low-cost policy. This restriction does not apply to uninsured motorist coverage or basic reparations benefits purchased outside the program.

A low-cost policyholder also may not purchase or maintain automobile liability insurance, other than a low-cost coverage, on a second automobile.

The bill limits each household to no more than two low-cost automobile insurance policies.

Certified Insurance Producers

The bill specifies the low-cost policy applicants may apply for coverage through a licensed insurance producer certified by the plan. They must present, at the time of application, a copy of their federal or state income tax return for the previous calendar year or some other reliable evidence to demonstrate their financial eligibility. Evidence from a government agency or means-tested program of the applicant's gross annual household income, as required by the commissioner, may be used. Applicants must certify that the representation made in documents submitted as proof of financial eligibility and in the application are true, correct, and contain no material misrepresentations or omissions of fact to the best of their knowledge and belief.

The bill requires certified insurance producers to forward the application, supporting documents, and the applicant's certification to the plan or other individual or entity designated by the commissioner. Information in these documents is confidential and not subject to disclosure under the Freedom of Information Act. The bill prohibits (1) disclosure by the producer or the plan and (2) producers from issuing binders (a temporary insurance contract that provides coverage until a policy can be written) for low-cost automobile insurance.

The bill requires producers, their agency, and employees to be held harmless from any (1) claim, judgment, or lawsuit resulting from an individual's application for coverage or purchase of a policy under the plan or (2) related or unrelated claim made against a plan policyholder, including a uninsured and underinsured motorist's claim.

Finally, the bill requires all automobile insurers engaged in business in the state and plan producers to inform individuals about the plan's

coverage if they (1) live in Hartford, New Haven, or Bridgeport, inquire about a new automobile insurance policy, and are not renewing coverage, or (2) inquire about the pilot program's coverage.

Producers must provide low-cost automobile insurance policy applicants with notice about the low-cost coverage plan, as a separate document, at the time of application. The notice must be in 14-point boldface type and contain a statement that informs applicants about (1) the policy's reduce liability limits; (2) their personally liability for losses that exceed the policy's limits; (3) requesting a different policy if they want more coverage; (4) losses the policy does not cover, including damage to their vehicle, those resulting from their own bodily injury or death and those caused by uninsured or underinsured drivers; (5) the availability of uninsured and underinsured motorist coverage and basic reparation benefits at extra cost through other insurers; and (6) drivers in the applicants household that the policy does not cover.

The bill establishes a conclusive presumption that the certified producer complied with the disclosure requirement once he establishes delivery of the notice and disclosure form by getting the applicants signature.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute Change of Reference

Yea 11 Nay 6

Judiciary Committee

Joint Favorable Substitute

Yea 36 Nay 4